

***Rebuilding Canadian Business Confidence***  
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Thank you Gordon, I am very honoured to be here today.

The Canadian Club has a long history of wading into important issues and launching new ideas – all in the space of a good lunch hour. Your series on convergence last fall is a good example of stimulating food for thought. I really value this opportunity to throw out some challenges of my own before such a committed audience.

You might assume I'm here today to talk about the sales of Windows and Office XP or Xbox or MSN – Please take courage, I am not.

I'm here to talk about something of much wider importance to all of us in this room today. It's the importance of restoring business confidence in this country. And I believe doing it is our job.

If the psychology of businesspeople and the marketplace continue to be roadblocks to real recovery, I'm here to challenge you – as business leaders – to become evangelists for a better, more informed, more positive attitude to this country, its economy, its people, and its tremendous potential for success.

Today, I'm going to share my thoughts on how, as business leaders, we can be agents of change in this country – change that not only restores business confidence but helps us all to ride the recovery expected in the second quarter of this year.

And, not surprisingly, I'm going to argue that technology and a commitment to innovation will be the cornerstones of sustained recovery and continued growth.

This may sound self serving, but it's not and here are three reasons why:

- First – every single person in this room is in the technology business. Whether you work for a technology company or a small or large business, technology is absolutely crucial to your future success.
- Second – No matter what the pundits say, technology is no longer an “economic sector.” It is the engine of the Canadian economy.
- Lastly – the IT revolution that was promised, and that so many people say is over, is only just beginning.

Before I convince you of the key role of technology and innovation in Canada's recovery, I'd like to step back a bit and look at this country's real strengths and potential.

And here, I'm concerned. Many Canadians prefer to moan and groan about our economy, to believe the old paradigm that we are hewers of wood and drawers of water, to believe that we lag, and will always lag, behind the United States.

Oddly enough, it isn't the so-called uninformed public who hold this view, it is those of us in this room.

As David Dodge, the Governor of the Bank of Canada, noted, consumer confidence remains high despite the downturn, while business confidence scrapes the bottom.

This was reinforced in a recent Compas poll, which found that only 29% of chief executives and senior managers felt that the economy was in good shape, versus 64% the year before. At the same time, polls are showing that the public had strong basic confidence in the country's economic prospects.

In fact, recent data suggests our Canadian economic fundamentals are much better than we think.

They are so strong, in fact, that last week, Mr. Dodge and Finance Minister Paul Martin stated that Canada is in a better economic position than the U.S. – our budget is balanced, inflation is low, and our economy has been outperforming the U.S. It is reasonable, they argue, that Canada will emerge from this downturn first.

Now many of you, I'm sure, are wondering what qualifies me to talk about economic recovery. Well, I feel qualified for many reasons:

- Because I'm a Canadian with a strong belief in my country
- Because I've just recently returned from heading up our central region in the U.S. and am more enthused to be back here now than I've ever been
- Because I'm leading a Canadian business that is poised to become a \$1 billion company with 34% growth over last year
- Because Microsoft Canada has a strong work force of more than 550 Canadians and a nationwide partner base several thousand strong
- And because I've been lucky to be part of a corporation that, despite tough economic times in both the US and Canada, has continued to innovate, to expand its commitment to R&D, and to successfully launch three major new products last year

With all these achievements, and my personal experiences in both countries, I hope to offer you a new perspective on our prospects for the future.

Let me begin with the reality of our economic fundamentals, the underpinnings of what should be a very buoyant view of where we are as a nation. To do this, my talk today has to contain some of the special art of economic forecasting.

Now, I'm no economist – but like anyone else, I can quote them!

This is important because rebuilding any economy – or any company for that matter – surely has to start with an appreciation for the strength of its foundations.

I believe that Canada's fundamentals have never been stronger and that we have broken the back of the recession.

Just look at last month's holiday season retail numbers. 2001 was a record spend for Canadian consumers. On the Friday before Christmas, VISA alone was at one point processing transactions at a stunning \$20,000 a second.

More broadly, there have been landmark improvements in three areas – fiscal, economic and the strength of our workforce.

Over the last decade they have produced a renaissance in our economy.

While I'm sure we all follow the economic indicators and know them by heart – let's look back over 10 years to see how striking the transformation has really been.

- The government budget balance has gone from nearly \$66 billion in the red in 1992-93, to \$29 billion in the black in 2000-01
- The federal tax burden – revenue as a share of GDP – has declined from 17.8% in 1991-92 to 15.8% this year
- Canada has gone from having a large – and chronic – current account deficit in the early 90s to the largest proportional current account surplus in the G-7
- As a result, our foreign debt has been halved, from 44% of GDP a decade ago to roughly 20% today
- Canada is the only G-7 country not likely to have a deficit this year

And our economy is far more diversified than it was. Are we really still hewers of wood and drawers of water? No. Three decades ago natural resources accounted for 70% of our economy. Now it's 30% and decreasing.

And three out of four Canadians feel that the Internet's revolutionary communications and transaction technology will have a positive impact on jobs. We agree.

Those attitudes come as no surprise – Canada is the most connected country in the world, with a level of high speed access twice that of the US. We really are the world's early adopters.

Now, if Canadian brainpower is the foundation for our future success we've had a raft of encouraging news lately there as well.

In December, the OECD surveyed 265,000 15 year-old students in 32 developed countries and found Canadian students were fourth in reading skills – well above the U.S.

and just slightly below New Zealand, Finland and Australia. Those same students were in the top six in mathematics and science.

We also boast the highest digital literacy amongst the world's teenagers according to a Forrester research survey.

Now you all know, as I do, that the picture is not entirely rosy. It never is. The weakness of our currency is a serious problem, one that government is now turning its focus to. There is much more we can do increase our productivity as a nation. And as I mentioned earlier, business confidence in our economy is not strong – we lag behind consumers by a considerable margin.

But I'm here to challenge you not to fall prey to the nay-sayers. As Canadians we often find humility more comfortable than shameless self promotion – but I urge you all to take our positive indicators to heart – as leaders – we absolutely have to become this nation's champions.

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So with sound fundamentals, and a recession that is fading fast, let me turn to a topic that really excites me – technology – and talk about its vital role in creating new opportunity and sustaining the recovery.

Here again there are prophets of gloom and doom. They love to quote negative statistics, like:

IT hardware spending will be lucky to grow in the single digits this year, after average growth of about 12% per year. That, on top of the dot com bust, is why the bloom seems to be off the technology rose . . .

Or is it?

Absolutely not. Even in the face of this data, we should all be very buoyant about the role of technology in our businesses – a role which I argue is masked by the way we track tech spending.

As I said earlier, we are all in the technology business. It's not just about PC or semiconductor sales!

I know this may sound revolutionary for a company built on selling software for PCs – But I believe that measuring the success of the technology revolution by PC sales, or sales of any particular device, is like measuring the impact of electricity by tracking light bulb sales. It does not truly reflect the health of our industry or measure its impact.

I am convinced – and this is at the core of what I want to say today – that in Canada, technology and the strength of our own knowledge economy will be the engines of a powerful and sustainable recovery, of higher productivity and greater competitiveness.

I firmly believe that it is the ongoing application of pervasive technology solutions that will continue to improve our bottom lines. Here's why.

Many pundits have confused the end of the first stage of the technology revolution with the end of the revolution itself. In this area, history is instructive.

No one could say that electricity was a failed innovation just because so many businesses failed immediately following its introduction. It still revolutionized our lives – completely remaking our societies and redefining every business.

I firmly believe we're in the early stages of a technological revolution just as significant as that of electricity. It's just that it's always in the later stages of these revolutions where the most significant changes occur.

This is because it's not the technology itself that is revolutionary – as many failed dot.coms learned the hard way. The revolution is in the application – how business uses technology and how it is applied to entirely new functions.

And it is in this respect that we have only just scratched the surface of the current IT/Internet revolution.

More Canadian businesses than we recognize get this message. This is the flip side to what I believe is the misplaced doom and gloom that has shadowed our industry.

The impact of overall IT spending on economic growth is finally starting to be recognized. A recent Information Technology Association of Canada study found that in the 90's, a 5% investment in IT produced a 10% improvement in GDP growth. So a little goes a long way!

Let me quote the President of the Retail Council of Canada, Diane Brisebois, “. . . as a group, Canadian retailers are boosting IT budgets, elevating the role of IT in their organizations and focusing on new and emerging technologies. This helps them gain a competitive edge in many essential ways, from boosting operating efficiencies to enhancing their ability to deliver quality customer service.”

This boost is not inconsequential, and is certainly not confined to the retail sector.

After lagging the U.S. in software and hardware spending through the economic boom of 1993-2000, software development in Canada is up 15.2% year-over-year, while in the U.S. it has risen by just 1.2%. Hardware spending is up a modest 1.3% in Canada, but still far outshines a 7.6% decrease in the U.S.

Bill Gates – someone I tend to listen to – has been even more provocative. Bill has said that the technology transformations of the next 10 years will dwarf those of the last 40. Think about that for a minute – 40 years ago there were no personal computers, no Internet, no fax machines, no databases as we know them.

Today we couldn't imagine doing business without them.

And I'd be curious to know what percentage of this audience uses more than one handheld device – be it a Pocket PC, a Blackberry or a cell phone. Not one of them, but two or even more.

These devices have definitely improved our productivity and communications capability. So I can understand why you might find it hard to believe that we still have so far to go.

Well, brace yourselves, because I can assure you it's only the beginning. How many of you wish you could have all of these devices communicate with each other seamlessly, so you don't have to enter data twice, or use a different device to make a phone call than you use to get your e-mail, for instance? Hold on – this kind of connectivity is coming.

The 90s transformed how we communicate and get information. Almost overnight, the PC and the Internet enabled businesses and people to exchange ideas and data instantaneously. But the next wave will have a far broader impact, one that will touch each and every one of you personally as well as your businesses.

But to really understand the magnitude of the change that is coming, you can't think of these devices separately. What makes the future so exciting is the certainty that they will all be connected – talking to one another, exchanging information and radically changing the way we live and work.

The area I'm talking about is called "web services," – and what it promises is the transformation of the Internet from a place to see pictures of information – whether news, weather, financial, entertainment or anything else – into a web of connectivity.

Consider how difficult it is to navigate through the health care system today. How many of you know where all of your medical records are? How many of you have dealt with the frustration of picking up records, test results or X-rays to take from one office to another?

What if we all had our own, secure, personal web-page that contained all of your information? What if you only had to provide secure access to your health care team, so that they could enter and view your files and be fully up to date? What if that web-page interacted with other devices, so that records could be viewed, appointments made and instant notifications sent to you by email or on your cell phone or pager?

This is a very simple example of connectivity and the opportunity for consumers to benefit from the ability of different technologies to exchange information with each other.

Roy Romanow – are you listening?

And the benefits of this approach could be staggering – not just for health care – but for all businesses.

Another example – Webfront, a Toronto-based Internet solutions company recently won a Channel Business award for its innovative use of Microsoft’s web-services platform – called dot net – to change the way web-services are delivered and, perhaps, forever change the way transactional websites are developed.

In the past, every web-site had to have its own tools to interact with users – in government, for instance, every department had to figure out the logic of gathering and processing information, calculating taxes and clearing credit card information. These systems are incredibly complex, difficult to develop and manage.

In a prototype called “hot tub,” Webfront built a web services platform that would only require building these functions once – other websites could simply borrow the logic rather than spending millions building their own.

Imagine the cost savings and the time and energy saved by not having to replicate this complex and time consuming work over and over again?

Webfront’s award winning prototype is now being tested by the Ontario Government and we think there is enormous potential savings in this solution.

Microsoft is so certain that the web services revolution is coming, we have essentially “bet the company” – everything we do now is Internet focused, and built on our dot net vision of a connected world.

We believe that for companies to improve their productivity in the future, they must connect their customers, employees, suppliers and partners much more efficiently.

Some say this is a risky bet, especially in tough economic times. I say it’s innovative. The time for these products and services is now. Period.

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Let me return to my original theme. As business leaders we should not be part of the problem – putting off investments in technology, sacrificing our talent, putting off new product development, playing it safe while the world readjusts.

We must be part of the solution – ready to take a role in promoting change and opportunity when it is most needed. Let's take the lead from consumers and move confidently into recovery.

In this regard I'd like to salute the business coalition that was fast off the mark on Sept. 11<sup>th</sup> to lobby the government long and hard to make the necessary security enhancements so that our enormous north-south trade flows could return to normal.

The measures taken on this solution in the December budget reflect a correct focus on real solutions to real problems.

Sadly, our technology industry – which will be at the heart of our recovery – fared less well, both in the budget and in the days and weeks since. We look forward to working with Industry Minister Alan Rock to create a future where the full promise of the Internet as a consumer and business-to-business driver of productivity is available to all Canadians.

We will urge him, and the government as a whole, to reconsider public/private investment in increasing access to broadband service across this broad country.

Believe me this is not a vanity project. We are not talking about wiring up isolated cabins so everyone can download video. There are thousands of communities in this country that are isolated because they only have access to dial up connections. Think what this means to a Canadian Tire owner/operator in a small town whose connection to inventory control and ordering is painfully slow – even uncertain.

More importantly, think of what this could mean for people in remote areas who require complex medical diagnostics and care – care that could be made available through a combination of broadband access and new high tech tools that allow the best experts to treat patients online in remote areas, cost effectively and without the delay required for travel to urban areas.

Perhaps we who understand the value of broadband access too easily let the opposition and relatively uninformed journalism on the subject set the agenda. It's a lesson I for one will take to heart when the debate is rejoined with Minister Rock.

And this goes doubly for a renewed debate on innovation – which I would like to brand more broadly as a “change” agenda – one in which we all must be far more fully engaged.

The time to innovate is always right now!

But what can you do to help stimulate innovation and increase productivity within your own company? Here are a few ideas:

- Create a culture of innovation – be supportive and build in incentives and reward those who take risks
- Do not fear failure. Calculated risk provides the freedom to innovate. Accept that there will be setbacks and do not punish people for experimenting
- Make technological advancements part of *all* business decisions. Recognize how they can increase efficiencies, promote the free flow of ideas and empower your workforce
- Look at intellectual capital. Intellectual capital is the currency of 21<sup>st</sup> century businesses
- Recognize the potential of our youth and encourage them to engage themselves in science and technology, to empower them through innovative training programs and increased investment in their future
- Support your community and provide individuals with the tools they need to enhance learning and create life altering experiences

And we all have to make it an article of faith that technology is not a sector of the economy, it is not something that sits apart from business as usual. We cannot be complacent and feel like we have arrived at the end of the technology revolution. Success will come to those who ruthlessly innovate, to those who understand what I said earlier, this is only the tip of the iceberg.

Finally, as business leaders, we have to work together with governments and our academic R&D community, to exploit all of the change agents in our economy.

Microsoft Canada is committed to being an agent of change by bringing business, government and academics together to engage them in a debate on innovation and change through conferences like Microsoft Canada's Can>Win.

So in closing, I'd like to urge us all – in the strongest possible way:

- To take Canada as it is now – rather than as it was
- To recognize we already have robust foundations for business success here in Canada – good ones
- To constantly remind ourselves of the real issues, what is *really* going on, focusing on our real strengths as a nation – instead of being mired in the low and often depressing level of public and media discourse
- To make innovation and technology solutions part of all our daily agendas

And just to be proud – that's really it.

Thank you.